

Murray Staitte

From: Ebba Petersen [Ebba.Petersen@cam.co.nz]
Sent: Tuesday, 4 October 2011 4:43 p.m.
To: Richard Kempthorne; Paul Wylie
Cc: Murray Staitte; stobo@xtra.co.nz
Subject: New Zealand Local Government Funding Agency

4 October 2011

Mr Richard Kempthorne, Mayor
Mr Paul Wylie, Chief Executive

cc Mr Murray Staitte, Corporate Services Manager

By email

Dear Richard and Paul

Local Government Funding Agency Limited (LGFA)

Given the recent passage of legislation which enables the creation of the LGFA I thought it would be timely to send a personal letter to you introducing myself and outlining progress to date and what remains to be done to launch the LGFA. This will ensure that you are aware of our critical tasks. Your Council's support has been essential to the establishment of the LGFA and on behalf of the Establishment Board, I would like to extend our thanks for your Council's ongoing support.

I have been asked by prospective local government shareholders to chair the LGFA Establishment Board. Other members of the Establishment Board are Mark Butcher Auckland Council, Paul Anderson Christchurch City Council, Matthew Walker Hamilton City Council and Eugene Bowen Local Government New Zealand. My background is in central government, financial services, professional directorships and entrepreneurship.

I agreed to Chair the LGFA Establishment Board because consolidation of local government borrowing to drive down borrowing costs makes economic sense for Councils and their ratepayers. I took time in my due diligence to review existing global peers undertaking similar activities, such as Sweden's Kommuninvest (www.kommuninvest.com) and was impressed at what those local governments had achieved by clubbing together. I also see the LGFA as a very long-term sustainable business based upon servicing your borrowing needs, so I expect the LGFA will evolve as your needs change.

The Establishment Board is charged with the task of incorporating and resourcing the LGFA as a CCTO. There has been an enormous amount of work to date. I should acknowledge the work of our advisors, fellow Board members, the Tight Nine⁽¹⁾, other prospective founding shareholders⁽²⁾ and the Crown. The status of key workstreams undertaken and required through to incorporation of the LGFA is as follows:

- Appointment of Commercial Advisors - Cameron Partners Ltd and Asia Pacific Risk Management Ltd have been involved since inception with the project. They were appointed following a competitive RFP process led by LGNZ. Their formal role will wind down after incorporation.
- Capital funding - The Tight Nine and the Crown have contributed \$1.35 million to July 2011 (\$100,000 per Council and \$450,000 from the Crown) and have agreed to contribute a further \$1.4 million (\$100,000 per Council plus \$500,000 from the Crown) to get to launch. It is important to acknowledge that the Crown will be a \$5m or circa 20% shareholder at incorporation of the LGFA. Their support has been critical.

- Business Model -The LGFA will commence operations as a relatively simple broker-model borrowing on its own behalf and on-lending to Local Authorities on a back-to-back basis. It has a principal objective of optimising the funding terms and conditions for Local Authorities. This will be explicit in its Statement of Intent. It plans to pay dividends out of future profits but these will be capped. This is based upon Council borrowing needs identified in Council ten year plans and assumptions around Council commitments to use the LGFA.
- Appointment of Legal Advisor - Russell McVeagh were appointed in July 2011 following a competitive RFP process.
- Executive Search Advisors - Hobson Leavy were appointed in July 2011 following a competitive RFP process.
- Shadow Board/Board of Directors - Searches have been completed and shadow directors chosen. They are Craig Stobo (Chair), Paul Anderson (Christchurch City Council), Mark Butcher (Auckland Council), John Avery (Independent), Philip Cory-Wright (Independent), Abby Foote (Independent).
- Chief Executive - Searches have been completed and a shortlist of three outstanding candidates has been compiled for the shadow board to choose from. This appointment is critical.
- Service Level Agreement (SLA) with the Crown's Treasury Office, NZ Debt Management Office (NZDMO) - As you may be aware, LGFA will outsource its middle and back office functions to the NZDMO as a means to effectively manage a range of financial markets and operational risks. The SLA is near to completion. In addition we are negotiating a standby liquidity facility from the Crown.
- Documentation - Documents on capital subscription, shareholder agreements, guarantees etc are close to being finalised for sign off by shareholders / borrowers in late October.
- Regulatory requirements - Discussions have been held with the Reserve Bank and Office of the Auditor General.
- Credit Rating - We are engaged with Rating Agencies to confirm their earlier indications of a credit rating for the LGFA commensurate with the NZ Government.
- Communications - Press coverage has commenced; discussions have been held directly with the Tight Nine at meetings in Wellington and with the other prospective founding shareholders who wish to join on incorporation by phone and email; prospective domestic institutional investors have been met; global investors need to be targeted; and a website is being constructed.
- A Shareholders Council has been formed and is led by Matthew Walker. Its initial role is to coordinate LGFA shareholders ahead of incorporation, and to review the performance of the Company in general and Directors in particular. The Shareholders Council will make recommendations to the shareholding Councils when important decisions are required.

¹ Auckland Council; Christchurch City Council; Greater Wellington Regional Council; Hamilton City Council; Tasman District Council; Tauranga City Council; Wellington City Council; Western Bay of Plenty District Council; Whangarei District Council.

² Bay of Plenty Regional Council; Hastings District Council; Kapiti Coast District Council; Masterton District Council; New Plymouth District Council; Otorohanga District Council; Selwyn District Council; South Taranaki District Council; Taupo District Council; Waipa District Council.

As you can see this is a significant initiative, which has direct benefits for you and ratepayers. I thank you for your support to date and in future and hope to meet you in due course. In the meantime if you have any queries please contact me.

Regards



Craig Stobo
Chair, Local Government Funding Agency

021 733751

stobo@ltra.co.nz

LGFA – Board of Directors Appointment Process

1. The process that was followed to appoint the shadow board of directors to the LGFA was lead by the LGFA establishment board and involved the following steps:
 - a. A full request for proposal (RFP) process was run to select an HR consultancy firm to assist with the independent director search and appointment process. From a shortlist of three firms, Hobson Leavy were selected.
 - b. Following agreement with the establishment board regarding the preferred skill set and experience mix of the independent directors, Hobson Leavy ran appropriate national advertising.
 - c. Following the results of advertisement responses and Hobson Leavy's own research, a total of 51 individuals were confirmed to be approached.
 - d. Initial approach and candidate interviews were run by Hobson Leavy followed by members of the LGFA establishment board and other representatives from the 9 major councils interviewing shortlisted candidates.
 - e. Following confirmation of the preferred candidates representatives of the 9 major councils and the Crown as cornerstone shareholder confirmed their agreement with the four recommended independent directors as well as the two non independents.
2. Profiles of the LGFA shadow board of directors are provided below.

LGFA Director Profiles

Craig Stobo-Independent Chair

Educated at Wairaki Boys High School Oamaru; Graduated BA (Hons) First Class in Economics Otago; completed the Advanced Management Programme, Wharton Business School, Philadelphia. He has worked as a diplomat, economist, investment banker and CEO of BT Funds Management. He has authored reports to the NZ Government on the taxation of portfolio investment which led to the PTE regime; and the creation of NZ as a funds domicile. He currently chairs the listed company AMP NZ Office Ltd, and OCG Consulting Ltd and has private equity interests in financial services and other businesses. Married with three children and lives in Auckland.

Abbey Foote-Independent Director

Graduated LLB(Hons)/BCA Victoria. She has worked as a financial services senior solicitor in NZ, corporate senior legal advisor in the UK, a manager for Pharmacia in NZ, an independent director and Chair of an NZXX listed company, and CEO of an internet start up company. Currently a director of Transpower and trustee of The Cathedral Grammar School. Married with three children and lives in Christchurch.

Phil Cory Wright-Independent Director

Graduated LLB (Hons) Victoria. Solicitor of High Court of NZ and Australia. He is a licensed sharebroker. He has worked as a corporate finance director for NZ investment banks on debt and equity projects. Currently director of South Port and strategic advisor to clients in the energy and infrastructure sectors. Married with two children and lives in Auckland.

John Avery-Independent Director

Graduated LLB Auckland. He was a staff member and became managing partner and then chairman of Hesketh Henry. He has also worked as a director of The Warehouse, several start up businesses and an industry cooperative. Currently independent director of NZ Guardian Trust, Fund Managers (Auckland), Signify, Regional Facilities Auckland, Comprehensive Health Services and Spider Tracks and NZ School of Dance. Married with three children and lives in Auckland.

Paul Anderson-Director

Graduated M Comm (Hons) First Class in Accountancy Canterbury. He has worked as an analyst for NZ Treasury, treasury project manager for a UK bank, Head of Commercial and Finance and then Manager of Retail Data Provisioning at Telecom NZ. Currently GM Corporate Services for Christchurch City Council. He lives in Christchurch.

Mark Butcher-Director

Graduated B Comm Auckland. He has worked for NZ banks in their Treasury divisions (including sales and trading in interest rate products), as Chief Investment Officer of the Rotorua Energy Charitable Trust, and as General Manager of Alliance Bernstein NZ Ltd. Currently Treasurer of Auckland City. He has three children and lives in Auckland.